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HOTEL*.MX - Q2 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

EVENT DATE/TIME: JULY 21, 2017 / 5:00PM GMT



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CORPORATE PARTICIPANTS

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Francisco Medina *Grupo Hotelero Santa Fe SAB de CV - Deputy CEO*

Enrique Martinez *Grupo Hotelero Santa Fe SAB de CV - CFO*

Francisco Zinser *Grupo Hotelero Santa Fe SAB de CV - CEO*

CONFERENCE CALL PARTICIPANTS

Hector Vazquez *GBM - Analyst*

Andrea Oleya *GBM - Analyst*

Christian Constandse *GBM - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for your patience in holding. We now have our speakers in conference. (Operator Instructions)

It is now my pleasure to turn this conference over to Max Zimmermann. Mr. Zimmermann, you may begin.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Good afternoon, everyone, and thank you for joining us today. My name is Max Zimmermann, Investor Relations Director of Hotel. And I would like to welcome you to the company's earnings webcast for the second quarter of 2017.

I am here with Francisco Medina, our Deputy CEO; Enrique Martinez, our CFO; and Alberto Santana, our Administration Director. Francisco Zinser will be joining us in a couple of minutes for the Q&A. We'll let you know when he is in the room.

A small parenthesis before we start. We will be projecting a video of Krystal Grand Los Cabos after our Q&A so you can see what a great product we inaugurated this year. In order to see the video, please connect to our webcast. You can find the link to our webcast on our Investor website. The address is gsf-hotels.com/investors. Let me repeat that, gsf-hotels.com/investors. There you will see a link that says Webcast, so you will be able to join.

Also before we begin, I like to remind you that our call is being recorded and that information discussed today may include forward-looking statements regarding the company's financial and operating performance.

Our projections are subject to risks and uncertainties, and actual results may differ materially based on a number of factors. Please refer to the detailed notes in the Company's press release regarding forward-looking statements.

The presentation slides we will follow during this call are available on our webcast, which you can find on our Investor Relation section of our website. At the end of the presentation, we will open the call to any questions you may have.

We will now begin with the presentation. So please to look on your webcast and we're going to start on slide one and then we're going to be moving to slide two.

The first half of 2017 was great for us and the results of the second quarter exceeded our expectations. In Mexico, tourism is booming. This week, the WTO published that Mexico is now the eighth most visited country in the world, up from number nine. Also, the Secretary of Tourism mentioned



JULY 21, 2017 / 5:00PM, HOTEL*.MX - Q2 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

that we could reach the sixth place by next year if the growth in tourism continues the way it has. Growth numbers for airports in Mexico continue to deliver high growth rates of both national and international travelers.

In terms of local trends, we had a great quarter as Holy Week this year was in the second quarter compared to last year where it was in first quarter. Also, I would like to share that even though our Krystal Grand Hotel in Los Cabos took a little longer than expected to take off, June numbers exceeded our expectations and our outlook for the rest of the year for this hotel that is in the stabilization stage to perform very well.

Moving on to our quarterly results, please see Slide 2, where I will pass the mic to Francisco Medina.

Francisco Medina - *Grupo Hotelero Santa Fe SAB de CV - Deputy CEO*

Thank you, Max, and good afternoon, everyone. During second quarter 2017, total revenue increased 36% to MXN368 million driven by a 33% growth in room revenue, 43% growth in food and beverage revenue, 29% in other revenue and 34% in management fees received related to third-party owned hotels.

Room revenue growth was driven by the opening of the Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta, performance of the Krystal Urban Cancun, which is in a stabilization and the solid performance of the stabilized hotels including Krystal Grand Punta Cancun and Krystal Beach Acapulco.

Food and beverage revenue increased 42.6%, to MXN108 million in second quarter 2017. Approximately, half of this growth was attributed to the incorporation of the Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta. The remaining percentage was due to the incremental food and beverage outlets revenue, mainly at the Krystal Grand Punta Cancun, Hilton Puerto Vallarta and Hilton Guadalajara.

Management fees related to third-party-owned hotels increased by 34% due to a 15% growth in the number of rooms under operation combined with top line growth from these properties. The number of rooms increased due to the incorporation of the Ibis Irapuato, Krystal Pachuca and Krystal Monterrey.

Moving on to our key operational metrics, on a consolidated level, this quarter, we posted a RevPAR growth of 6% which is comprised of an ADR growth of 9% and slightly lower occupancy driven by the incorporation of Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta. As Max mentioned it, this hotel's occupancy exceeded our expectation in June and we expect the maturation curve on these hotels to improve the second half of the year.

Now, please move to Slide 4. And I will hand the call over to Enrique Martinez, which will guide you through our financial results.

Enrique Martinez - *Grupo Hotelero Santa Fe SAB de CV - CFO*

Thank you, [Paco], and good afternoon, everyone. EBITDA in the quarter reached MXN110 million, a 35% increase compared to second quarter 2016. This result was driven by revenue growth. EBITDA margin for the quarter was 29.8%, slightly lower from our second quarter 2016 EBITDA margin of 30%. This was mainly driven by the inclusion of the Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta, which currently have lower margins since they are beginning their stabilization stage.

Now, please to Slide number 5. Moving on to net income, we post MXN74 million compared to a loss of MXN20 million in second quarter 2016. The increase was driven by a foreign exchange gain and higher income from operations. The FX gain was driven by the effect of the mark to market valuation effect of a lower dollar peso exchange rate of our dollar denominated debt.

Now, please move to Slide 6. Net debt was MXN606 million at the end of [two] quarter 2017, which represents a total debt to EBITDA last 12 months ratio of 1.3 times. Total debt is mostly U.S. dollar denominated, which is at 81% participation weight. This tranche of the debt has an average cost



JULY 21, 2017 / 5:00PM, HOTEL*.MX - Q2 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

of 4.4% while the remaining portion of the 90% is peso denominated with an average cost of 10.4%, [covering] in the overall a competitive debt mix.

Additionally, I would like to mention that over 90% of debt maturities are long-term. The Mexican peso appreciated 2.8% by the end of the quarter and had a positive impact on our financial cost, as I earlier mentioned with the FX gain. Also, our short U.S. dollar position by the end of the quarter was \$29 million, equivalent to MXN523 million.

Now, please move to Slide 7. And I will pass it over to Max, who will talk about our new contract and 2017 expansions.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Thank you, Enrique. Let me start by mentioning our two new management contracts that we signed in the quarter. The first one is Ibis Irapuato, a business hotel with 140 rooms in Guanajuato. The hotel is in a mixed-use development with stores and services. The hotel is operated by the company since June under the ACCOR franchise, a French multinational hotel group.

The second one is the Zacatecas Centro Historico Curio Collection by Hilton with 32 luxury suites located in Zacatecas. The hotel which is owned by a third-party is located in the historical center of Zacatecas and is in a historical 19th century building where the Bank of Zacatecas was located in the times of Porfirio. The building is being remodeled and the hotel is expected to open by the second half of 2018.

Additional to these hotels that I mentioned, last quarter we also announced the Krystal Pachuca, which we started operating in February and the AC by Marriot Distrito Armida, which is under construction and will open in the second half of 2018.

Now, let me briefly touch on our expansion that will be opening this year. The first one is the Krystal Grand Punta Cancun where we are adding 100 suites in a new tower, which will open in the next few months. The second expansion is at the Hilton Puerto Vallarta where we are adding 192 suites, which we will open in the fourth quarter of this year.

Sorry, let me correct that, for the Krystal Grand Punta Cancun, we are actually going to be opening in the next few weeks.

The third expansion is at the Krystal Grand Nuevo Vallarta, where we will add 264 rooms scheduled for the fourth quarter of this year. And the last expansion is the Krystal Vallarta, which is a third-party hotel under management. This will be adding 216 rooms by the fourth quarter of this year.

Now, before opening for questions, I would like to highlight an important detail on valuation and I'm actually going to be moving to Slide number 7. We have invested around MXN3.1 billion CapEx, which will start producing EBITDA as our expansions and our developments are inaugurated, a large part of which will be later this year.

Currently, this CapEx represents 51% of our property, furniture and equipment. And these assets have not been generating EBITDA for the last 12 months.

With that, I would like to open the call for questions and answers, also mentioning that Francisco Zinser has already joined us in the room.

QUESTIONS AND ANSWERS

Operator

Thank you very much. (Operator Instructions) Our first question will go for Hector Vazquez, GBM.



JULY 21, 2017 / 5:00PM, HOTEL*.MX - Q2 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Hector Vazquez - GBM - Analyst

Congratulations for the results. And I have one question. How long should it take the ramp up of the recently acquired hotels to achieve a similar occupancy rate of what we are looking today in a mature hotel? And as of today, what are the levels of occupancy regarding both hotels? Thank you.

Francisco Zinser - Grupo Hotelero Santa Fe SAB de CV - CEO

Welcome. Thank you, Hector. As you know, we defined the -- sorry, this is Francisco Zinser. Sorry for joining a bit late, but I had something to take care of.

These hotels, as you know, the stabilization hotel, the stabilized hotels are hotels that have been in the portfolio for at least three years operating. In the case of the two hotels of Los Cabos and Vallarta and Nuevo Vallarta, we believe that due to the market's performance in both cities, they will have a quicker ramp-up than the three years.

And as you know, new hotels always take some time to reach the occupancy levels that we have, but having said that, occupancy barely dropped. If you can see, with the impact of 900 -- well, not at this point 933, but about 700 rooms that came in at lower occupancy rates. So, the impact was not that significant.

Operator

Thank you very much. (Operator instructions)

Francisco Zinser - Grupo Hotelero Santa Fe SAB de CV - CEO

I would just like to add something for all of those attending, that before closing the call, we will put a video from the Krystal Grand Los Cabos. So when we close the Q&A session, if those of you interested in watching the video, please stay online and if you can connect through the Internet, all the better.

Operator

Thank you very much. Our next question will come from [Andreas Oleya], GBM.

Andrea Oleya - GBM - Analyst

Thanks. Hello, Francisco and congratulation on the recent results. I just wanted to ask will you be -- you think of it and you can reach your guidance for the end of the year? And regarding your cash position, I just want to know if it's in U.S. dollars or in Mexican pesos.

Francisco Zinser - Grupo Hotelero Santa Fe SAB de CV - CEO

Okay. Well, we are confident in achieving our guidance. If you see all of the adding of rooms that we're going to have in the coming months, specifically in the second semester, we are confident with our guidance. And we believe we will reach it.

Enrique will answer on the debt considering (multiple speakers) --



JULY 21, 2017 / 5:00PM, HOTEL*.MX - Q2 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Enrique Martinez - *Grupo Hotelero Santa Fe SAB de CV - CFO*

On the [active] position. Approximately, 85% of the cash position is U.S. dollar denominated.

Operator

Thank you very much. Our next question will come from Christian Constandse, GBM.

Christian Constandse - *GBM - Analyst*

I have a few questions. First, if you look quarter-on-quarter, most of your operation lines are down. Can you comment on that?

Francisco Medina - *Grupo Hotelero Santa Fe SAB de CV - Deputy CEO*

Hello, Christian. This is Francisco Medina. In terms of occupancy, we have minimum difference, but in terms of in the explanation we did regarding the opening of the new property in Los Cabos and Nuevo Vallarta, it's normal that when you start -- the start up of the hotels with the low occupancy, and then as [Pancho] mentioned, they will start to reach the normal levels. Just to give you an example, this model will reach a very good occupancy in the case of Los Cabos.

In terms of what did our EBITDA, the difference is two sentence, I mean 29.8 to 30% and basically it's due to the same case of these two new openings in Los Cabos and Nuevo Vallarta.

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Sorry, when you have a hotel that comes in into operation and it is a hotel that is not at the cruising level, you have all the expenses, a big part of the expenses, but you still don't have all the revenues. So as Paco just mentioned, the difference is actually quite good, I would say, because with the amount of rooms, it could have been something higher, but we were -- I mean we planned not to have that happen.

Francisco Medina - *Grupo Hotelero Santa Fe SAB de CV - Deputy CEO*

Although, I will add that a very important metric, which is the RevPAR, it represents an increase of 6%.

Christian Constandse - *GBM - Analyst*

Okay. I get the part on cost and expenses, but on your total revenues are down from MXN387 million to MXN368 million.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Let me take that. This is Max from Investor Relations. Actually, our total revenue this quarter, as you can see on the press release and also on our presentation was MXN368 million, 35.5% above the second quarter of 2016 where we posted MXN271.9 million. That means that there is a 35.5% variation in the quarter.

And if you look at those numbers for the last six months or the year-to-date, we have grown top line 27.2% going from MXN594 million to MXN755 million. So, maybe we're looking at different numbers, but we can definitely follow up with you after the call.



JULY 21, 2017 / 5:00PM, HOTEL*.MX - Q2 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Christian Constandse - *GBM - Analyst*

Yes. It's just I'm looking at the first quarter 2017 total revenue. I have here that it's MXN387 million.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Perfect. What you are doing is that you're looking at it sequentially, I'm sorry, (inaudible), yes.

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Yes. That has a lot to do -- in the case of -- quarters don't necessarily behave the same way. Quarters don't necessarily have to grow after each quarter. The first quarter as you know is a strong quarter because of the winter season. So at the [resort] level, you can see that that could happen.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Also something important is that in the first quarter we have a higher component of dollar-denominated revenues, which also helped. But I think the bottom line here is that for the full year, we are expecting in terms of our guidance, a 40% growth in terms of revenues and 45% growth in terms of EBITDA, which we still feel confident we can achieve. So, I think if you look at this for the full year, you should not be worried.

Christian Constandse - *GBM - Analyst*

Okay, great. Just another question, when do you think you're going to get back your EBITDA margins to what you're guiding?

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

So, if you look at our guidance, it is to slightly expand margins from what we reported for the full year 2016, which if I'm not mistaken was 34.9%. And if I am not mistaken, we are going to be expanding our EBITDA margin in terms of our guidance, I think it's around 50 or 60 basis points for the year.

So, as Francisco mentioned, the seasonality has a big effect in terms of the different quarters, but what you should be expecting for the full year is an EBITDA margin of above 35%.

Christian Constandse - *GBM - Analyst*

Okay, very well. And just two last questions. I noticed that your effective tax rate was really high for the quarter. Can you comment on that?

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Sure. Let me follow up with you on that because there was a loss, I mean there was negative taxes in the second quarter of last year. I'm sure that was because of a one-off. We also had last -- the same quarter of last year, we also had our follow on. So there might be some effects there. Please let me look into it and we'll follow up after the call. And if anyone else listening in has the same question, we'll be happy to follow up.

Christian Constandse - *GBM - Analyst*

Okay. Great. And just lastly, what's the evolution we can expect for your accrued liabilities?



JULY 21, 2017 / 5:00PM, HOTEL*.MX - Q2 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

I'm sorry, sometimes these questions that are little bit more in terms of --

Enrique Martinez - *Grupo Hotelero Santa Fe SAB de CV - CFO*

The current liabilities in the current -- and the current liabilities for [response] to some accounts are payables to our partners in the hotels of Los Cabos and Nuevo Vallarta. These current accrued liabilities will be changing for a long-term debt as part of the transaction of the positions of the hotel in Los Cabos and the hotel in Nuevo Vallarta.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Actually, this is something where we basically have debt when we made the acquisition of Los Cabos and Nuevo Vallarta. We're actually in the process of making a new loan on the hotel, which should be closing in the next weeks, or next couple of months. So probably for the next quarter, you will see a large part of these MXN800 million offset and then they will be in --

Enrique Martinez - *Grupo Hotelero Santa Fe SAB de CV - CFO*

Allocated in the long-term debt line.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

-- the long-term debt line.

Operator

Thank you very much. Ladies and gentlemen, there are no further questions. I would like to turn the call back over to Maximilian Zimmermann.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Thank you. So now we are actually going to be putting the video --

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

And before that, we would just like to thank the trust and the confidence that the investors have put in us. And we affirm our commitment to become the leading hotel company in the country. Leading means not the biggest, it means the most profitable one. And we would like to thank all of our associates for their constant effort, and again, thank you one more time for your trust. We have a great team. And we are very committed to continue to outperform and to give outstanding results.

Have a great day, and I turn it over to Max.



JULY 21, 2017 / 5:00PM, HOTEL*.MX - Q2 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Thank you. So, for those of you that are connected to our webcast, you're going to see a green speaker icon on the top next to audio. We're going to ask you to go there and click on mute conference audio only. Once you do that, you will no longer listen to me, but you will be able to listen to the video.

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Can you repeat again just for those --

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director of IR of Hotel*

Sure. So on the webcast, which is in the Adobe Connect platform, you will see a green speaker icon next to the audio menu. It has a small dropdown menu. You click on that and then you have three options -- speakers mute, conference audio only or just speaker volume. You only have to click on mute audio conference audio only and you will start seeing the video.

Thank you, guys, for connecting and we'll leave you with the video. Have a great day.

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